EAST-WEST INVESTMENT NEWS

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ECE membership rises to 55 States with the admission of Tajikistan on 1 December 1994.

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ABBREVIATIONS

CIS	Commonwealth on Independent States
CMEA	Council for Mutual Economic Assistance
FDI	Foreign direct investment
FDIE	Foreign direct investment enterprise
FI	Foreign investment
FIE	Foreign investment enterprise
NIS	Newly Independent States
R	Russian Federation Rouble
TE	Transition economy
US	United States (used as an adjective)
US$	US dollar
VAT	Value-added tax

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REVIEW OF RECENT LEGISLATION

Kyrgyzstan

Investment regime and recent incentives for investors

At the end of 1994, a number of concessions were granted to foreign investors (the Republic's foreign investment legislation is dated 28 June 1991, and was amended in May 1993 and in September 1994). New regulations declare that the legislative environment for foreign investors should not be less favourable than that of local physical and legal persons. The regulations also provide for the possibility of specific privileges for foreign investments granted by the Kyrgyz Government.

Foreign investors were assured of their right to repatriate their capital, profits or parts of their profits in the form of foreign currency, products manufactured by their joint companies, or commodities purchased on the domestic market. It was also stated that profit-tax holiday periods should be calculated from the moment the profit is received. Other regulations specified that all companies engaged in gold mining are exempted from rent payments. Tax exemptions from paying VAT were granted to operations providing insurance and re-insurance, and to those granting and transferring loans.

Some of the latest Presidential decrees call for tightening regulations on stock market activities and on the operations of investment companies and funds.

It is worthwhile to recall that the current legislation in Kyrgyzstan contains the following basic provisions regarding the legal environment for foreign investment:

- foreign investments cannot be expropriated or nationalized unless they pose a direct threat to health and life of citizens, or unless such action is compelled in the urgent needs of State security. The decision to nationalize may only be taken by the Parliament, and should the need for requisition or nationalization arise, foreign investors will be compensated in line with the real value of their property;

- the possible forms of foreign investment include shares in joint ventures, foreign enterprises, securities holding companies, special purpose monetary deposits, scientific and technological production, intellectual property, and other forms of activities not prohibited by the law. Wholly foreign-owned companies are also allowed;

- corporate profit tax consists of a 30 per cent basic rate. Different rates for specific activities are (in per cent): insurance - 55; restaurants, trading enterprises, intermediaries - 50; and banking - 50. A 12 per cent tax is paid on income received from dividends on shares, securities, obligations and on revenues obtained from financial participation in joint ventures;

- free repatriation of profits. A tax of 5 per cent is levied on the transfer of profits by companies which do not pay corporate tax.

- profit tax concessions for foreign investors. If foreign contributions in kind and financial form constitute more than 30 per cent of the statutory capital of a joint project, or if a foreign investor owns at least 51 per cent of the stock, the company with foreign capitalization is entitled to tax holidays from 2 to 5 years (depending on the activity, with the largest period reserved for manufacturing and construction). After the expiration of initial tax holidays, tax allowances ranging from 25 to 50 per cent (subject to meeting certain requirements) may be granted with respect to re-invested profits.

- other taxes paid by all companies: VAT (20 per cent), property tax (1.2 per cent of the value of fixed assets), mining royalty tax (30 per cent), road tax (0.8 per cent), payroll tax, excise duties, etc.;

- income tax: Kyrgyzstan employs a progressive structure increasing from 12 per cent (for earnings of up to six times the amount of a minimum salary) to a maximum rate of 40 per cent (for the income bracket exceeding the minimum salary 35 times);

- foreign investors may own real estate. As far as land ownership is concerned, local physical and legal persons may only own the right to use land, and may freely sell, transfer, lease or pledge this right. Such rights are granted for the period of 49 years and upon expiration may be extended further;

- foreign investments shall be registered with the State Commission on Foreign Investment and Economic Assistance. The documents to be presented to register a joint venture or a foreign company are: a completed application form, copies of statute documents, a certificate that the foreign partner is registered in its country of origin as a legal body, and a bank certificate attesting to the applicant's solvency. The last two documents are submitted as notarized copies with a certified translation into Kyrgyz or Russian. Foreign citizens should also submit a translated copy of their identification document (as noted above).

Despite the significant progress made in recent years in attracting foreign investments, their overall number is still rather small. According to the latest data from Kyrgyz authorities, there are 370 joint ventures and 70 foreign companies registered in the republic, with the total amount of foreign investment at about US$ 100 million. Less than one-third of the registered joint projects are actually operating.

Canada accounts for 45 per cent of the invested capital, followed by Turkey (20 per cent), and the United States and China (12 and 10 per cent respectively).

In terms of the number of joint ventures by region, the majority of partners came from Asian countries (49 per cent of the total) with China leading (63 joint projects), followed by Turkey (34) and Afghanistan (13); European States were next, lead by Germany (36), and the United Kingdom (10). Russia accounted for 52 joint venture companies, while the United States had 36.

In February 1995, Kyrgyzstan and the European Union signed a 10-year partnership and cooperation agreement. The accord provides for Most Favoured Nation status for both sides, abolishes quantitative restrictions in mutual trade, liberalizes movements of capital and transfer payments, calls for the protection of intellectual property rights and for an expansion of cooperation in other areas. The agreement is expected to stimulate foreign capital inflow into the country.

Hungary

New Customs regulations

As from 1 January 1995, new amendments were introduced in Customs regulations on imports of goods. The more strict rules concern in particular the payment of import duties on goods brought into the country by road transport. At present, the duties are to be paid on the spot, rather than within the previously alloted 30 days. Hungarian Customs officials will also demand a deposit for goods transported through the country due to cases of goods being imported duty-free under the pretext of their transit. Companies will now have to deposit a sum equal to 15 per cent of the value of the goods in transit as a guarantee, unless they can provide a letter of guarantee from a financial institution or a company considered trustworthy by Customs. Deposits are to be refunded after the goods have left the country. Rules applied to collection procedures of duties on imported goods will also be tightened, thus making illegal trading in imported goods more difficult.

According to information released by the Ministry of Finance, it is also expected that the current ban on imports of automobiles manufactured more than six years ago, will be also extended to all forms of non-financial contributions (machinery, office equipment, etc.) of foreign investors. Under the present rules foreign investors' contributions in kind to the capital of a joint project is exempted from Customs duties.

In the field of corporate profit taxes, new concessions were provided with respect to re-invested profits, and tax allowances will be granted on the equipment purchases of companies operating in regions with high unemployment.

Ukraine

Regulations on foreign economic activities

At the end of 1994, the Ukrainian Government decided to introduce the practice of registering contracts on the exports and re-exports of a number of goods. The new regulations do not constitute restrictions or quotas on exports, and were

implemented only to comply with Ukraine's obligations under bilateral and international agreements.

The list of export goods which now require registration includes fourteen commodities and products (e.g. textiles, ammonia, chemical products, ferrous and non-ferrous metals, etc.), imports of which in foreign countries are subject to restrictions and also to complaints from local producers alleging dumping by Ukrainian exporters.

The re-exports group comprises seventeen goods (sugar, timber, meat, etc.) which are either imported in Ukraine and are in short supply on the domestic market or their re-exports are not allowed without the permission of the exporting country.

According to information from the State Property Fund, the Government is considering a proposal to revise the foreign investment regulations on the participation of foreign investors in privatization.

Under the existing rules, foreign investors may purchase stakes in privatized companies only on the condition that they provide payment in hard currency at an exchange rate set by the National Bank. By revoking this obligation and allowing foreign investors to utilize their earnings in local currency, the Government hopes to attract more active involvement of foreign capital in privatization.

In the meantime, the Cabinet of Ministers approved the schedule for starting the sale of State assets through privatization certificates. They will begin to be issued to the population in January-February 1995, with the first voucher auction to be held in March 1995.

The Cabinet of Ministers also passed the draft of the State Privatization Programme for 1995, which is to be approved by the Parliament. The Programme calls for the sale in the current year of 22.7 thousand State companies and objects, including 13.5 thousand small businesses, 8 thousand medium and large enterprises, and 1.2 thousand unfinished projects.

New rules on barter deals were introduced in accordance with the Presidential decree signed at the end of January 1995. Under these regulations, foreign trade operators will have to make an import deposit with an authorized bank. The bank will release the deposit once Customs authorities have confirmed that the imported goods were actually delivered.

The amount of the deposit depends upon the type and value of export goods. The regulations distinguish between Ukrainian goods considered competitive and non-competitive on international markets, and also between priority and non-priority imports. Accordingly, the size of deposits may vary from 5 per cent of the total value, for deals that exchange competitive agricultural products for priority imports, to 50 per cent, when competitive goods are sold for non-essential imports. Goods and products qualifying as priority imports and competitive exports are to be announced by the end of February 1995.

Russian Federation

Latest tax and foreign trade regulations

In December 1994, the Parliament adopted certain amendments to the Law on Income of Individuals (the basic legislation was passed in 1992).

The new income tax rates (which apply to all individuals, including foreigners) are in the range of 12 per cent for annual income of up to R 10 million (about US$ 3 thousand) with those in the income bracket of under R 50 million paying R 1.2 million roubles, plus 20 per cent of all earnings exceeding R 10 million. The maximum rate is fixed for incomes above R 50 million (approximately US$ 13.5 thousand) - R 9.2 million plus 30 per cent on earnings over R 50 million.

The new taxes are calculated in the same manner as previously. Nevertheless, it means a reduced tax burden, particularly for taxpayers with high incomes, as previous rates varied from 12 to 30 per cent for incomes below R 5 million and more than R 10 million, respectively.

Some of the latest instructions of the Central Bank directly concern the personnel of enterprises with foreign participation. The Bank has stated that companies (resident and non-resident) operating in Russia cannot pay salaries or any other remuneration in foreign currency to their personnel (resident and non-resident). Payments in foreign

currency are allowed only in relations between non-resident legal and physical persons.

It may be noted as well that, in line with other amendments passed by the Parliament with respect to corporate taxes, a number of concessions were granted to foreign companies engaged in certain programmes on military conversion. To be eligible for these concessions (which include exemption from profit tax, taxes on assets, VAT, and road funds), foreign companies must be engaged in construction, consultancy, or training activities for personnel discharged of military service and their families; such projects must be funded by loans, grants or financial assistance received from international organizations or foreign countries within the relevant agreements concluded with the Russian Government. Foreigners engaged in such military conversion projects are also exempted from income tax.

In another development (in the implementation of the Presidential decree of 24 November 1994 on promotion of foreign investments), Russian Customs authorities issued regulations on the exemption from import duties for certain categories of investment goods. Such concessions are granted on equipment, machinery, assembly parts and raw materials (with the exception of goods subject to excise duties) imported for production purposes under contracts which were concluded before 1 January 1993 and registered with the Customs office in 1994. These rules are to be applied retroactively with regard to elligible goods on which duties have already been paid.

Similar concessions without any time limits could also be provided for imports used in the production and development of enterprises and companies under contracts established in the framework of the credits granted to the Russian Federation by international organizations and foreign countries.

The Government also decided to abolish import duties on a number of different types of equipment and machine tools, and, from 1 January 1995, quotas on exports of crude oil and oil products.

Additional import concessions for large foreign investors were granted in accordance with the Presidential decree of 25 January 1995. Under the decree, import duties on certain goods (excluding alcoholic drinks and tobacco products) will be cut by 50 per cent. Such concessions, limited to a period of no more than five years, may be granted to foreign companies supplying their goods on the Russian market, and are subject to the following conditions: a) the foreign company must participate in a joint project to manufacture similar goods in Russia, utilizing local resources and workers; b) the company must make direct investments worth no less than US$ 100 million in areas of material production; c) the foreign partner must contribute a minimum of US$ 10 million to the statutory capital of such a joint venture.

To benefit from these concessions, a special investment agreement must be concluded between the foreign investor and the Government. The package of legislative acts that will implement the decree is to be submitted to the Parliament within two months.

IN BRIEF

CIS

In January 1995, as a result of successful negotiations between Belarus and Russia, and Russia and Kazakhstan, the three countries decided to establish a customs union.

As a first step towards such a union, the participants pledged to lift restrictions on mutual deliveries during the first three months of 1995. It is expected that, in the first half of 1995, the countries will unify their trade and customs regimes thus creating possibilities for a single Customs zone.

The three countries' agreement is the first accord aimed at the practical implementation of the decisions to revive trade and economic integration reached by the CIS Heads of States Summit Meeting last autumn.

Kazakhstan

In accordance with the Presidential decree, the use of foreign currency in the retail trade and service sector is banned as from 16 January 1995. The national currency, the Tenge, has become the sole legal tender acceptable for cash transactions. This interdiction does not apply to operations of the registered duty free shops, or to ticket sales for travel abroad.

The amendments to the foreign investment

regulations which entered into force in January 1995 provide for additional guarantees and obligations of the host country vis-à-vis foreign investors. Thus, if subsequent legislation offers less favourable conditions for foreign investors, the existing rules should remain in force and be applied for 10 years.

On 23 January 1995, the Presidential decree on measures to raise the effectiveness of State management and the regulation of attracting foreign investment was signed.

The decree requests that the Kazakh Government prepare a State programme on attracting and using foreign investment to bring about structural changes in the national economy. The programme will be submitted to the President for approval by 1 April 1995.

Moldova

In line with recent instructions released by the National Bank, the system of compulsory sale of hard currency earnings to the State has been abolished. Previously, all local business operators were obliged to sell 35 per cent of their export receipts in convertible currency to the National Bank at the official exchange rate. This liberalization measure is seen as a sign of the successful implementation of the monetary and credit policy pursued by the Government, which has resulted in the growing stability of the national currency.

FOREIGN INVESTMENT

Foreign direct investment in energy projects in European transition economies: global context, status, potential and conditions for growth, by Dr. Klaus Brendow[1]

Summary

FDI magnitude. In 1992, global total FDI flow was US$ 195 billion, with stocks standing at US$ 1,948 billion at the end of that year. Compared with these numbers, total FDI in the European transition economies (TEs) was negligible, amounting to approximately US$ 3 billion in annual flows and US$ 8.2 billion in stocks.

Energy-related FDI in TEs. Registered energy FDI in central and eastern Europe and the CIS amount to about US$ 3 billion per annum, but actual disbursements made up only US$ 1.5 billion. The value of stocks does not exceed US$ 5 billion. Most of this capital is invested in oil and gas exploration and extraction in the resource-rich republics of the CIS, with the remainder being invested in electrotechnical engineering and consulting. Energy FDI is, thus, unevenly spread as regards energy activities and countries, and supports a traditional supply- and fossil fuel-based energy evolution with a bias towards large-scale operations and enterprises.

Its importance. Energy-related FDI plays a significant macroeconomic role in the resource-rich republics of the CIS, but not in the other CIS republics or in central and eastern Europe, where capital inflows are too small to stimulate GDP growth, employment, productivity or environmental redress.

Opportunities. This limited role is not the result of a lack of opportunities (conservatively estimated at three times the value of present disbursements), or of a genuine lack of interest by investors. The latter appear strongly motivated by a search for primary energy sources, access to electricity generating capacities, and opportunities to diversify supplies and markets and to enhance their own international status.

Constraints. From the investor's point of view, obstacles to energy-related FDI include civil war, political instability, social unrest, economic depression, discrimination, and administrative or bureaucratic impediments. For the host country, a major problem consists in the political and social sensitivity of privatizing of certain energy sectors, the handling of which requires a continued public control. Equity FDI has not been overriding the public control mechanism, but has been affected through cooperative, negotiated agreements, such as production sharing or concessions.

Sensitive areas. "Sensitive" areas differ from country to country, but generally include the exploration and extraction of energy resources; ownership of gas and electricity transmission networks, nuclear plants and disposal facilities; underground coal mines; tariff design; and acquisition of land by foreigners or foreign entities.

Conditions for growth... The "partial" or "negotiated" privatization approach in the energy sector taken by the transition economies impedes a more abundant FDI inflow. Governments, while maintaining the elements of "partial" privatization, would find it in their interest to increasingly subsume energy activities under the general (i.e. non energy-specific) privatization law, and to harmonize the latter with international practices and conventions, particularly as regards the non-discrimination of foreign and national enterprises.

...and their specification. Initiatives such as the European Energy Charter, and organisations such as the World Energy Council, the UN/ECE and UNCTAD offer forums and mechanisms to further advance along this road.

Introduction

Five years have elapsed since the nations of central and eastern Europe and those of the former Soviet Union opted for political and economic reform. Much hope had been placed, from the beginning, in foreign direct investment in the energy economy (energy FDI),[2] as one of the vehicles to modernize the energy systems, and integrate them into European and world markets.

While some east-west and east-east (within the group of the former socialist countries) energy-related investment projects are already shaping up, the present paper deals exclusively with west-east energy FDI. It focuses on the status and evolution of FDI in the Commonwealth of Independent States (CIS) and in central and east European transition economies (TEs), and explores the potential and conditions for its further growth.

Energy FDI inflows and stock

The mainstream of global FDI inflows, all sectors and countries taken together, bypasses European TEs. Of the US$ 195 billion of global FDI inflow in 1993, only US$ 5 billion, or 3 per cent, were registered in central and eastern Europe and the CIS. While this was a notable increase over 1989, when FDI inflow in the region stood at only US$ 0.3 billion, or 0.2 per cent of global FDI, it is evident that the appeal of European TEs is still comparatively low, lower indeed than any other world region including Africa.[3]

Moreover, the pace of growth slowed down in 1993 compared with 1992. The ever-growing political unrest, and legislative and practical difficulties of the transformation process in a number of countries began to overshadow the investment opportunities offered by skilled and cheap labour, low production costs and, in some countries, available natural resources. Capital flows being low, it is not surprising that the accumulated stock of total FDI in central and eastern Europe and the CIS is low, too. At the end of 1993, total FDI stock in the region amounted to US$ 8.2 billion, while world FDI stock stood at US$ 1,948 billion (and FDI stock in Africa at US$ 46 billion). It is encouraging, though, that the stock has increased continuously from 1989, when it amounted to only US$ 0.5 billion.

Capital inflows and stock are unevenly spread among TEs. In 1992, some 86 per cent of the capital flows and stock were accounted for by only four countries: Hungary, the former Czechoslovakia, Poland and Russia.[4]

However useful total FDI may have been for a particular project, the overall impact on the national economy in terms of modernization, growth, employment or technology/information transfer has been small, with the exception of Hungary. This may also be concluded from per capita FDI stock. In 1993, the average accumulated FDI stock in European transition economies did not exceed US$ 56 per capita.[5]

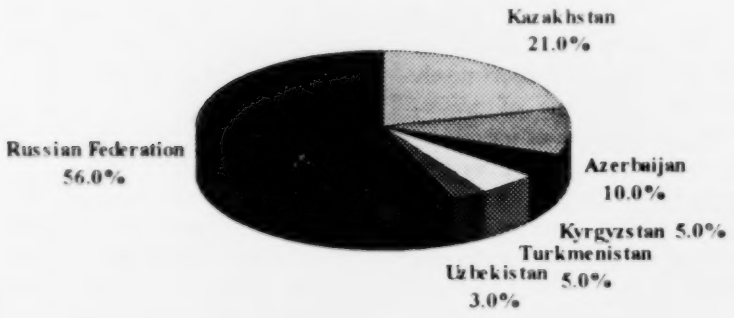
Energy FDI in the CIS and in central and eastern Europe

At the end of 1992, registered energy FDI flows into TEs amounted to about US$ 3 billion, and

CHART 1

Energy foreign direct investment in the CIS, 1993

(percentage distribution)



energy FDI stock to US$ 8.2 billion. Thus, the energy sector attracted close to two-thirds of the total registered FDI in the area. Most of the capital was directed to the energy resource-rich republics of the CIS. Central and east European countries attracted only US$ 0.1 billion of energy FDI flows and US$ 0.5 billion of energy FDI stock.

(a) CIS

According to the UN/ECE, registered energy FDI flows in the CIS amount to about US$ 3 billion per annum and imply an accumulating investment over the lifetime of the projects of about US$ 110 billion.[6] However, not all registered energy FDI have become or are likely to become operational. At the beginning of 1993, about half of the registered projects appeared to be held up in the planning and approval stages or had not yet been implemented. At present, the energy FDI stock is unlikely to exceed US$ 5 billion. As an example, the latter figure represents only a tiny fraction of the total foreign assets of the world's top 15 mining, oil and electrical engineering companies which amount to US$ 270 billion.

The importance of energy FDI is best illustrated by the fact that registered long-term FDI in this area (US$ 110 billion) corresponds to about 10 per cent of the estimated long-term capital needs of the CIS energy sector (US$ 1,000 billion).[7] If implemented, these capital inflows in the energy field and the related information and technology transfer would play a significant role in modernizing the energy sector of the CIS, raising oil production (by an estimated 132 million tonnes), exports and hard currency revenues, and stimulating the economic take-off.

On the other hand, the massive inflow of FDI will perpetuate the traditional supply- and fossil fuel-oriented energy development of the former USSR, and its bias towards large-scale operations and enterprises. Between 90-95 per cent of the registered energy FDI flows in the CIS is in oil and gas exploration and extraction, with the remainder in energy engineering and consulting.

As much as 87 per cent of FDI in oil and gas exploration and extraction goes into the three resource-rich republics of the CIS: Russia, Kazakhstan and Azerbaijan (see Chart 1).[8]

FDI in oil and gas *exploration* and *extraction* takes the form of joint ventures, concessions and production sharing agreements. Equity participation is still unusual because of legal hurdles: either privatization laws are not drafted or implemented (e.g. Azerbaijan);[9] nuclear power stations or electricity generation are excluded from privatization (e.g. Russia);[10] or foreign equity is limited to a minority stake.

Not being a resource-rich country, Ukraine, in its State Programme for the Promotion of Foreign Investments of 1 March 1994, declares the "fuel and energy complex" as a priority area for foreign investments that justifies specific concessions. This may have facilitated a joint venture between Westinghouse and the Ukrainian company Kharton whose objective is to update the protection and control systems at the 14 Ukrainian power stations.[11]

The nature of the oil and gas business explains why only large companies engage themselves in energy FDI in the CIS. Most foreign partners are worldwide, operating transnational corporations such as British Gas, Agip, McDermott International, Marathon Oil, Mitsui, Dutch/Shell, Chevron, Elf-Aquitaine, Deminex, Conoco, Total, Mobil, Occidental, BP, and Statoil. The CIS partners are state-owned companies like Gazprom, Lukoil, etc.

Oil and gas exploration is not the only energy FDI area in the Commonwealth. Western engineering firms such as ABB or Siemens have concluded joint venture agreements or acquired equity shares in enterprises producing gas turbines, combined cycles, electrotechnical equipment, or undertaking management consulting. By September 1994, ABB alone had concluded 17 such ventures in Russia. EdF and RAO-SEUR, its Russian counterpart, have concluded a joint venture to provide consultancy services.[12]

At the time of writing, no FDI was reported in coal, renewables, efficient end-use appliances or environmental controls. Cooperation in these areas takes place through trade or under consulting contracts with foreign utilities, companies or international non-governmental organizations.

While the actual and potential capital inflow is primarily a function of advantageous long-term business opportunities, credit should be paid to the considerable progress made in the legislative

TABLE 1
Legal framework for FDI in CIS energy projects, 1992

CIS	NATIONAL LAWS ON:				BILATERAL TREATIES ON FDI PROMOTION /PROTECTION[(a)]	MULTILATERAL TREATIES		
	FDI	Privatization	Intellectual property protection	Foreign acquisition of land		European Energy Charter (declamatory)	European Energy Treaty (binding)	GATT
Armenia	...	...	...	...	US	Yes		No
Azerbaijan	15.1.92	...	...	Yes	...	Yes		No
Belarus	2.92	Yes	...	...	FI, US*, CH*	Yes		No
Georgia	...	...	Yes	...	...	Yes		No
Kazakhstan	...	Yes	Yes	...	FI, FR, DE, TR, US	Yes		No
Kyrgyzstan	...	Yes	...	...	TR, US	Yes		No
Moldova	19.5.92	Yes	...	No	RO	Yes		No
Russian Federation	2.92	Yes	Yes	No	PL, BE/LU, FR, CA, AT, KR, US, GB	Yes	Under negotiation	No
Tajikistan	10.3.92	...	...	...	...	Yes		No
Turkmenistan	4.7.92 15.12.92	...	...	No	...	Yes		No
Ukraine	31.3.92 12.92	Yes	Yes	No	PL, GB, CN, DK, FI, MN, EG, DE, US	Yes		No
Uzbekistan	7.92	...	...	No	FI, KR, TR, CH*	Yes		No

Note: ... = non-existing, or not known to exist.
* = signed in 1994.
(a) Treaties signed by the former USSR with Australia, Belgium, Canada, France and the Republic of Korea are applied by all CIS countries unless replaced by new ones.
AT = Austria; BE/LU = Belgium/Luxembourg; CH = Switzerland; CA = Canada; DK = Denmark; EG = Egypt; FR = France; DE = Germany; MN = Mongolia; PL = Poland; RO = Romania; KR = Republic of Korea; FI = Finland; TR = Turkey; GB = United Kingdom; US = United States of America; CN = China.

Source: UN, *World Investment Report 1993*, New York, 1993, p. 256; UN/ECE, document TRADE/WP.5/R.9/Rev.1 of 25.11.92, p. 110, etc.

BOX 1
FOREIGN INVESTOR'S CONCERNS AND ASPIRATIONS

Foreign investors expect host countries to:

1. *Enhance political stability*
2. *Solve territorial disputes including those offshore*
3. *Speed-up market-oriented legislation*
4. *Overcome fragmentation of energy infrastructure*
5. *Favour a FDI-prone business climate, in particular:*
   - *ensure protection against expropriation except under clearly defined conditions*
   - *guarantee the repatriation of earnings and capital*
   - *grant incentives, bearing in mind international practices*
   - *grant national status to FDI including, in the case of exploration, the purchase of land and acquisition of equity*
   - *define environmental and taxation liabilities*
   - *vest FDI-relevant powers in one government body*
   - *adhere to internationally binding agreements on FDI-relevant issues, including arbitration*
6. *Guarantee unimpeded transit of energy products at agreed terms*
7. *Improve the logistics (visa formalities, communications, transportation, safety, banking, and other services)*
8. *Enhance managerial skills, motivation, flexibility*
9. *Combat offences against correct business practices*

framework applicable in the CIS. Laws regulating the establishment, taxation, repatriation of earnings and capital, protection against expropriation, granting of incentives, and arbitration applying to foreign investments have been implemented (see Table 1).

Obstacles still exist, however, such as limitations on the acquisition of land by foreigners or their discriminatory treatment (see Box 1). Other obstacles include the need to get the registration approved and supply a considerable amount of often confidential information; the large number of government bodies involved in negotiations; references to laws and regulations which are not yet drafted or promulgated; restrictions regarding the purchase of equity in state-owned enterprises in the fields of oil, nuclear power, power generation, pipelines and transmission lines; privileges granted to labour collectives; hidden liabilities (rights of former owners, environmental heritage); legal or practical limits to the transfer of profits in local currency; conditions or ambiguities regarding tax allowances or compensation in case of expropriation; and deficient protection of patents, trademarks and industrial designs.

Some of the concerns of foreign investors as well as host countries are detailed in Boxes 1 and 2. It is generally assumed that a further harmonization of conditions will result form the implementation of the European Energy Charter, and that economic recovery would provide a more stable political and social framework for foreign investors.

(b) Central and eastern Europe

The present average annual inflow of energy FDI into these countries is of the order of US$ 80-100 million, with the capital stock not exceeding US$ 500 million. This amounts to about 1 per cent of total FDI and 4 per cent of total FDI stock in the region; the higher stock number reflects the higher capital intensity of energy FDI.

These are insignificant amounts when compared to the amount necessary to modernize the energy systems of central and eastern Europe (estimated at US$ 200 billion) or the huge investment earmarked for oil and gas exploration and extraction in the CIS.

The reasons for the relatively low FDI in *exploration and exploitation* of energy sources in the TEs of central and eastern Europe are evident. Contrary to the CIS, oil and gas reserves in this region are small and expensive by international standards. Nevertheless, Latvia, Albania,[13] Hungary[14] and Romania[15] have granted concessions for drilling, including in some cases offshore.

Central and east European coal reserves largely suffer from either low quality, high extraction costs, or insufficient trade and transport

infrastructure. Coal reserve-related joint ventures are, however, being considered in Upper Silesia and in Ukraine for the extraction of coal-bed methane.

As far as *oil refining* is concerned, the abundance of oil refinery capacity in Europe, and the need to considerably modernize refinery equipment in central and eastern Europe, have reduced the appeal of FDI in this sector. Nevertheless the acquisition of a 49 per cent stake by an international consortium in the two Czech refineries appears to be progressing.[16]

Until mid-1994, FDI in *electricity generation and distribution* had not yet been a realistic business proposition. While opportunities are vast and demonopolization has generally been accomplished, privatization of this industry had either been discarded (e.g. Romania, Croatia) or has not yet concluded. It was only in 1994 that Hungary offered foreign groups the option of acquiring up to 100 per cent of the country's regional gas and power distribution companies and conventional power stations.[17] This privatization is likely to gain momentum in 1995, after the privatization of the gas distributors has been concluded. In terms of investment committed, this would be the biggest, albeit not the first, privatization of a utility in central and eastern Europe: already in 1994, a consortium of US companies acquired a 67 per cent stake in the Czech Kladno electricity company.[18]

Also in the Czech Republic, an agreement was signed by GE/TEXACO and Czech partners to construct an integrated gasification combined-cycle power plant of 350 MW.[19] EdF and Slovensky Energeticky Podnik have created a joint venture, with the foreign partner holding 51 per cent, to retrofit and operate the Mochovce nuclear power plant.[20] EdF has also been awarded a contract to negotiate the privatization of the CHP plant of Krakov-Leg.[21] Negotiations are under way to build a power plant in Bulgaria on the basis of a BOT (build-operate-transfer) contract.

Privatization of the Hungarian regional *gas distribution* network has already been mentioned. In Slovakia, Gaz de France has acquired a 30 per cent stake in Slovakia's Pozagas with a view to build and operate an underground storage centre.[22] Total Gas acquired ownership of a Hungarian bottled-gas company,[23] and the Dutch company SHV Europa has acquired Gaspol for the distribution of propane and butane in Poland.[24]

FDI has been significant in the manufacture of *electrotechnical equipment*, where investors such as Siemens, ABB or Ansaldo have acquired ownership in national production capacities. For example, ABB and Energoreparatii of Romania established a joint venture, with ABB holding 51 per cent, aimed at improving the efficiency of Romanian electricity supplies.

As compared with the CIS, energy FDI in central and eastern Europe appears more thinly, but also more evenly spread over the region and various business segments. As in the CIS, energy FDI is the domain of multi-national corporations whose size and status allows them to negotiate acceptable conditions and await favourable legislative reform. There was and is no lack of

BOX 2
HOST COUNTRY'S CONCERNS AND ASPIRATIONS

Host countries expect foreign investors to:

1. *Respect different cultural values, e.g. the balance between equity and efficiency or between the individual, the collective and the Government*
2. *Allow for more time to build up national legislation, institutions and policy instruments*
3. *Recognize the concern that natural resources and energy be not unduly exploited*
4. *Do not exploit lack of familiarity with international practices*
5. *Implement multilateral assistance and funding more expeditiously*
6. *Be realistic as to conditions, particularly securities, that could be credibly offered under present circumstances*
7. *Extend FDI from energy exploration and production into higher value-added and spill-over activities*
8. *Involve domestic labour, management and technology to the extent feasible*
9. *Involve domestic managers and products in the international strategies of the parent company*

eagerness on the part of foreign investors to expand and diversify their business into central and eastern Europe. Nor was there a lack of business opportunities, although the scarcity of oil and gas reserves limits commitments in this area. Also, satisfactory FDI legislation had been put into place everywhere in the region,[25] except perhaps for the acquisition of land and commercial buildings by foreigners or foreign entities (for which various solutions are now being sought, including leasing).

The comparatively small amount of actual energy FDI in central and eastern Europe with regard to total and global FDI, or energy FDI in the CIS, was mainly due to uncertainties surrounding the privatization of the grid-connected gas and electricity industries. As policies become clearer, with some countries opting for continued state ownership and others for partial or full privatization, chances are high that energy FDI in these areas will increase in the foreseeable future. In the second half of the 1990s, emphasis is likely to be put on expanding gas supplies and international gas networks and storage centres, and on upgrading utilities and their interconnection with the west European grids. Towards the year 2000, the focus might shift to investing in new electricity generating capacities, whether nuclear or coal.

Potential for further energy FDI growth

(a) Supply and demand for FDI

Both the demand for FDI and the willingness to commit entrepreneurial capital have been clearly manifested in central and east European TEs.

On the *demand* side, capital requirements for modernizing power stations, refineries, networks and end-use equipment have been estimated at US$ 1,200 billion.[26] If only 5 per cent of this demand were covered by means of FDI, business opportunities to the tune of US$ 60 billion would open up over a period of 20 to 30 years.

On the *supply* side, investors are driven by their willingness to secure long-term access to primary energy sources and electricity, bearing in mind the depletion of resources and growing scarcity of sites and transmission corridors in western Europe, and ever more constrained business opportunities and profits in the investor's home market. They equally seek diversifying supplies by source and origin, in view of the growing import dependence of OECD countries.

Would supply and demand match at double the present actual energy FDI flows of US$ 1.5 billion? This would occur if the presently registered commitments (US$ 3 billion per annum) were actually implemented. Would supply and demand match at triple the present capital flows? This would just correspond to any major international energy investment, or to 2 per cent of the foreign assets of the world's 15 top companies in the fields of mining, oil and electrical engineering.[27]

So far, both parts of the equation have not matched. This has been illustrated by the low energy FDI flows and stock in central and eastern Europe and the CIS compared to global flows and stocks, and even more so by the unsatisfactory implementation rate of registered energy FDI (around 50 per cent in the CIS). From the investor's point of view, the reasons for this gap boil down to the lack of civil peace, social unrest, political instability, discriminatory treatment of foreign investors, and most importantly, better investment conditions elsewhere in the world. Seen from the host country's viewpoint, foreign investment is impeded by their concerns about the undue depletion of natural resources, the loss of jobs, treatment of locals as junior partners or the emphasis on low value-added activities.

(b) Privatization and public control

In a market economy, privatization is the "natural" avenue to attract foreign investors which want to enjoy a lasting control over the enterprise. Therefore, it was not a surprise that privatization of energy industries and facilities was, from the beginning of the reform process, heralded as the solution to render those industries profitable, efficient, environmentally acceptable and service-minded. Slow advances in legislation and the continued debate about the degree of privatization in the energy industry shows that privatization is not an easy solution to closing the gap between the FDI opportunities and expectations in the former centrally planned economies.

In particular, the controversy arises when appraising the importance and political and social sensitivity of certain energy activities, and the related need for government or public control.

It should be realized that public control

exercised in the developed market economies through competition in the labour and capital markets is non-existent or deficient in TEs. Hence, the reluctance of governments and the public to leave potentially dramatic decisions regarding lay-offs, traditional supplier relations, and energy prices or tariffs, in the hands of a foreign investor alone. The bigger, less efficient and unprofitable a state enterprise, the greater the need for fundamental restructuring, and the greater the resistance to its uncontrolled privatization.

It is to the credit of TEs' policy makers that they have pursued privatization in the energy field despite these hurdles. It is equally to the credit of the foreign investors, that they have made, and partially maintained their commitments, while realizing that they would not only have to comply with general privatization law, but also share operational responsibilities with workers' collectives and municipal and governmental shareholders, or to live with special restrictions, such as the "golden share", which permits Hungarian shareholders to veto discontinuation of activities, mergers or acquisitions of equity.

(c) Conditions for further energy FDI growth

Reconciling the essentially antagonistic principles of privatization and public control requires a country-and sector-specific, multiple and stepwise approach:

- Energy FDI in "sensitive" fields would be allowed on the grounds of *partial or negotiated privatization* taking into account legitimate public interest, whereas energy FDI in non-sensitive areas would be subjected only to general privatization law. It is evident that energy FDI in "sensitive" fields is not suitable for small- and medium-sized investors.

- However, step by step "sensitive" activities would have to be phased out to favour the application of *general, i.e. non energy-specific privatization law*.

- This process would have to be complemented by the process of harmonizing the national privatization law with *international standards* and conventions, so as to enhance the country's competitive position. The main issue here is the elimination of discrimination between national and foreign investors, particularly regarding access to energy resources and incentives.

The crucial issue in this three-prong approach is the scope of "sensitive" energy activities. Since they are often mingled with non-sensitive activities in one and the same enterprise, their organizational

BOX 3
RANKING OF "SENSITIVE" ENERGY AREAS

HIGH

Exploration/extraction of energy resources
Ownership of gas and electricity networks
Ownership of nuclear power plants and waste disposal facilities
Underground coal mines
Gas and electricity tariffs
Acquisition of land by foreigners

MEDIUM

Oil refineries
Operation (as opposed to ownership) of facilities such as power plants
Pricing of oil products, butane, propane
Local combined heat and power systems
BOT (buy-operate-transfer) contracts

LOW

Consulting
Manufacture of electrotechnical equipment
Energy trade and storage, including underground gas storage
Ownership over oil, LPG pipelines and terminals

separation in legally independent entities or, at least, profit centres is needed. Attitudes toward these issues differ among TEs, with Hungary, probably followed by Poland, opting for the largest possible application of general privatization law, and others (like Romania) maintaining full state ownership over entire energy industries.

Looking at the transition economies as a whole, the following scale of sensitivities could be drawn up (see Box 3). Wherever a particular country places itself on this scale, it is in its interest to move along the road from partial to full and internationally harmonized privatization.

STATISTICAL INFORMATION

1. General developments

Previously, *East-West Investment News* monitored foreign (direct) investment in transition economies in terms of the number of foreign investment registrations or operational foreign investment enterprises (FIEs).[28] It is clear that this method of observation does not permit an assessment of the capitalization of the latter, that is the value of committed or actually transferred foreign capital. However, from the late 1980s to the beginning of the 1990s, information on the number of FIEs had the advantage of being both available from the majority of countries and broadly comparable among them. By contrast, data on the values of foreign investment (FI) flows and stocks were not available for all countries of the region, and the comparability of those accessible was rather limited.

Recently, the progress of statistics in transition economies has enabled many of them to compile data on committed and actually transferred foreign capital. Although national practices still differ considerably, and the available information is far from being perfectly comparable, these data are now available to varying extent from most countries of central and eastern Europe.

Following these events, the secretariat has decided to improve its statistical reporting on foreign investment. In particular, the secretariat

TABLE 1

Foreign (direct) investment stock in countries of central and eastern Europe and former Yugoslavia by year

COUNTRY	01.01.1992	01.01.1993	01.01.1994	01.07.1994	01.09.1994	01.01.1995
	(mn USD)					
Belarus (1)	...	...	248.8	255.9	...	...
Bulgaria	17.5	68.8	218.0	286.4 (2)	...	...
Czech Republic (3)	595.1	1555.6	2053.0	2489.8	...	...
Estonia (3)	...	58.6	216.4	364.7	407.8	...
Hungary	3137.0	5501.9	8119.4	8281.3 (4)	...	...
Latvia	...	33.4	74.6	100.0 (5)	...	...
Lithuania (1)	50.5	95.9	196.9	220.9	230.9	...
Poland	479.5	1644.1	2542.5	2650.0 (5)	...	...
Romania (1)	225.8	516.2	651.9	794.2	934.4	1250.6
Russian Federation	...	...	2337.2	2636.9	3060.9	...
Slovakia (1)	...	231.2	366.0	408.0	462.0	...
Ukraine (3)	...	...	211.4	235.4	...	...
SUB-TOTAL	...	...	17250.1	18723.5 (5)	...	...
Albania	...	...	144.0	150.0 (5)	...	...
Slovenia	...	...	761.8	791.8	...	...
TOTAL	...	...	18155.9	19665.3 (5)	...	...

... Data unreported or not yet available.
(1) Cumulative foreign component of foreign investment enterprises' (FIEs') statutory capitals.
(2) As of 3 August 1994.
(3) Cumulative balance-of-payments FDI inflows.
(4) Preliminary data.
(5) Secretariat estimate.
Note: Values in national currencies converted into US dollars at historical yearly (half-yearly) average exchange rates.
Source: UN/ECE Secretariat; national statistics.

will no longer track changes in the *number* of registered or operational FI projects, but will regularly compile data on committed or actually effected foreign investment *in value terms*, instead. Beginning with this issue, *East-West Investment News* will present summary numerical information on FI stock in transition economies by host country (see Table 1). The data available permitting, this numerical information will be accompanied by secretariat's comments.

2. Transition economies: foreign investment in large projects

The present survey summarizes the data collected by the UN/ECE secretariat in its database on large foreign investment projects in east European transition economies. These data are taken from press reports and host country government agencies responsible for monitoring and promoting foreign investment. As a general rule, the database incorporates information on projects with foreign investment amounting to at least US$ 10 million. In some cases, smaller investment projects are taken into account when the potential for further investment is deemed important by the secretariat.

At the end of 1994, the database contained 599 records referring to projects agreed upon or negotiated during the late 1980s to 1994. Of these, 426 foreign investment projects have been agreed upon and/or partially implemented.

More detailed information in the survey and various breakdowns of data relate to a narrower group of projects, for which the sums of initial or total foreign investment are known. For practical purposes, *initial foreign investment* is defined as committed or effected during the first 1-4 years of project life. *Total foreign investment* extends over the whole life span of the project (up to 25-40 years) and incorporates initial investment. It is important to note that in both cases the value estimates refer largely to investment commitments, although parts of initial investment may already be transferred and available for use. It is equally noteworthy that the available data on initial and total investment *do not necessarily cover the same sets of projects*. That is why, in some cases, the value estimates for total foreign investment and the number of projects to which they refer may be lower than their counterparts for initial investment.

Growth

Both in terms of the number of projects and their capitalization, the growth of foreign investment in large projects accelerated in the beginning of the 1990s (see Table 2 and Chart 1). The value of *initial* foreign investment increased from less than US$ 2 billion committed in projects initiated in 1991, to US$ 2.7 billion the next year. In 1993, the yearly initial foreign capitalization reached its peak of US$ 7 billion, only to decline by 45 per cent in the subsequent year. It can be noted, however, that the data available for 1994 may be incomplete. Cumulatively, at the end of 1994, the total value of foreign capital due to be invested in 290 projects over the first 1-4 years of their implementation made up US$ 17.2 billion.

The dynamics of the *total* foreign investment committed in the 215 projects for which the data are available roughly followed that of initial investment. As compared with 1991, the value of investment commitments agreed upon in 1992 increased 2.8-fold and reached US$ 20.7 billion. In the subsequent year, the rate of growth accelerated further: foreign capital committed in 1993 amounted to US$ 69.4 billion. However, in 1994, as the available information shows, the value of total committed foreign investment declined considerably - almost four-fold - and stood at US$ 17.9 billion.

The number of large projects successfully negotiated with foreign investors continued to increase in all years under review, including 1994 when a drastic fall in the value of both initial and total foreign investment occurred. This implies that in 1994 the average capitalization of agreed projects, for which information is available, declined considerably.

Host countries

At the end of 1994, Hungary, the transition economy with the most success in attracting foreign investment, played host to 57 enterprises accounting for 27 per cent of total *initial* foreign investment in the 290 projects under review (see Table 3 and Chart 2). Poland with 24 per cent followed, while the Russian Federation (15 per cent), Kazakhstan (14 per cent) and the Czech Republic (8 per cent), taken together with Hungary and Poland accounted for almost 89 per cent of committed foreign investment to be effected during

the first 1-4 years of project life.

By the end of 1994, the east European former CMEA (Council for Mutual Economic Assistance) member countries (other than the CIS) and the Baltic States, taken as a whole, had attracted as much as two-thirds of the total value of initial foreign investment in the sample. The CIS member States had 31 per cent, and the former Yugoslav republics and Albania taken together had less than 2 per cent.

In terms of *total* committed foreign investment, the reverse percentage shares where the case (see Table 3 and Chart 3). At the end of 1994, the CIS member States accounted for as much as 75 per cent of total commitments' value, while the former east European CMEA member countries and the Baltic States for 25 per cent; the shares of the former Yugoslav republics and Albania were insignificant.

By this yardstick, Kazakhstan, with 39 per cent of total foreign investment commitments, and the Russian Federation with 31 per cent, headed the host country ranking. They were followed by Hungary, accounting for 8 per cent of the total, Poland (6 per cent), the Czech Republic (5 per cent) and Romania (3 per cent).

Thus, the data available suggest that at the beginning of 1990s, east and central European transition economies (other than the CIS), namely Hungary, Poland and the Czech Republic, were more successful than most of the CIS member States in hosting projects with relatively large foreign capital participation. While the weight of Russia and Kazakhstan as host countries was important, their shares were markedly lower than those of Hungary and Poland. However, this was true only with respect to initial foreign investment, which is to be effected in the first 1-4 years of project implementation. In terms of total committed foreign investment, spanning the whole project life (up to 40 years), Kazakhstan and the Russian Federation were at the top of the ranking, having attracted together foreign investment commitments worth over US$ 82 billion. It remains to be seen, however, to what extent large projects agreed upon so far will be implemented in the years to come.

Investor countries

At the end of 1994, west European and United States companies were the major source of investment in large projects with foreign participation. In terms of *initial* investment, west European firms accounted for 43 per cent of the total, while their US counterparts for 35 per cent (see Table 4 and Chart 4). Almost the whole of west European investment was committed by enterprises located in member States of European Union.

Other regions contributed to the initial foreign investment of the sample on a smaller scale. Japan's share did not exceed one per cent, while business operators from developing countries pledged about 2 per cent.

In terms of major investor countries, the United States, as already indicated, was by far the largest source with almost 35 per cent of the total initial investment (see Charts 4 and 5). The US companies were followed by their counterparts from Germany (13 per cent), France (7 per cent), Ireland (4 per cent) and Italy (just under 4 per cent). Taken together, the top five major investor countries accounted for 63 per cent of the committed initial foreign investment.

A relatively important share of initial investment was accounted for by multi-partner projects, that is, those in which companies from more than one country participated. The share of such projects in the initial foreign investment made up about 15 per cent (see Table 4). Companies from the leading world investor countries took part in most of these projects. United Kingdom companies in 18, US in 16, Dutch in 12, French in 11, Swedish in 9, German in 8, and Swiss and Austrian in 7, each.

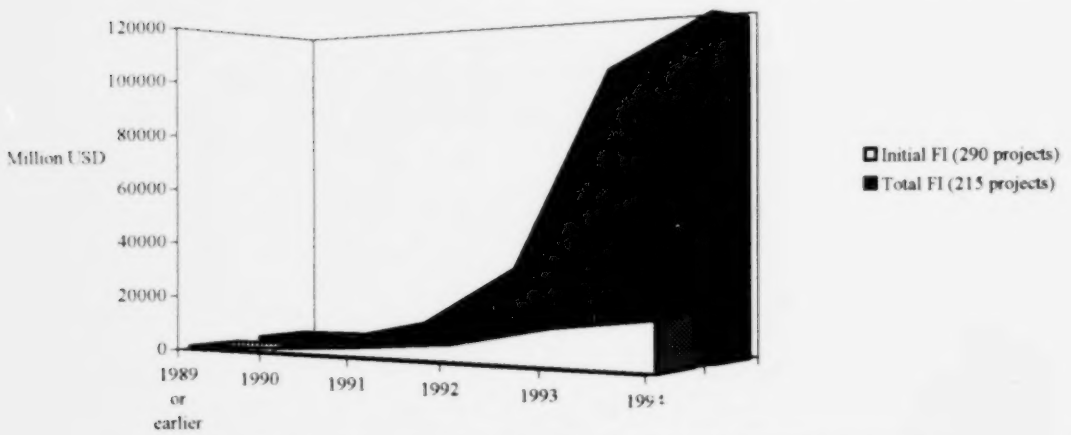
Total foreign investment in large projects was more concentrated in regional and country terms (see Table 4 and Chart 6). US companies accounted for the bulk of the total (57 per cent), while west European investors for about one third of it (32 per cent). Within western Europe, the EU countries committed about 17 per cent and the other west European countries almost 15 per cent of the total. While the share of developing countries did not exceed 2 per cent, the weights of other regions were even smaller.

In terms of total investment commitments, the ranking of major investor countries was different as compared with that in terms of initial investment

(see Charts 5 and 7). Turkey, with 13 per cent of the total, followed the United States (57 per cent), while the shares of other major investor countries were smaller than in the initial investment. The United States and Turkey, taken together with Germany (7 per cent), the United Kingdom (4 per cent) and Italy (3 per cent), committed nearly 84 per cent of the total. Multi-partner projects accounted for less than 9 per cent of the total committed investment - a smaller share than that in initial commitments.

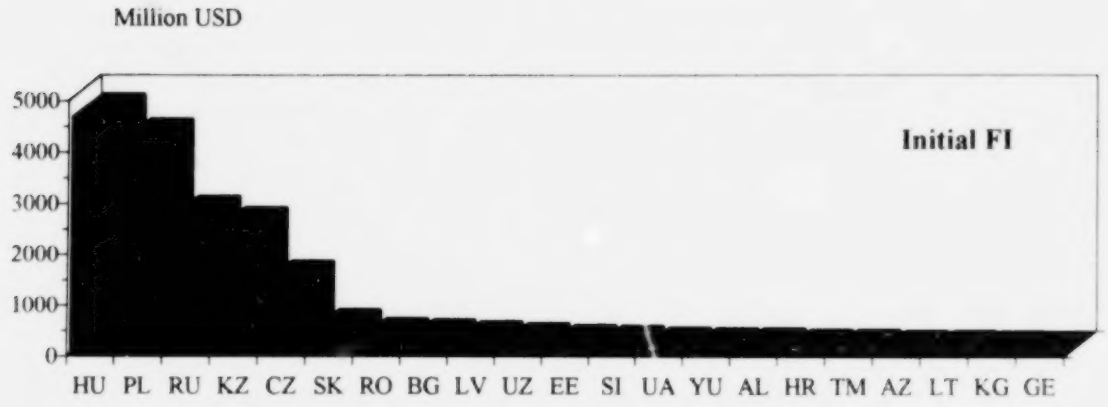
Therefore the data available show that at the end of 1994 the positions of west European companies as an investment source for large projects in European transition economies were stronger in the initial component of such investment. US and, to a lesser extent, Turkish investors were more focused on longer-term projects operational over time spans of up to 40 years. One can thus note that at the beginning of the 1990s European transition economies largely benefited from an inflow of foreign capital from west European countries. It is probable, however, that in the future other countries, especially the United States, may become the single-most important source of entrepreneurial capital from abroad. (To be continued in the next issue.)

CHART 1
European transition economies: growth of foreign investment in large projects, end of period



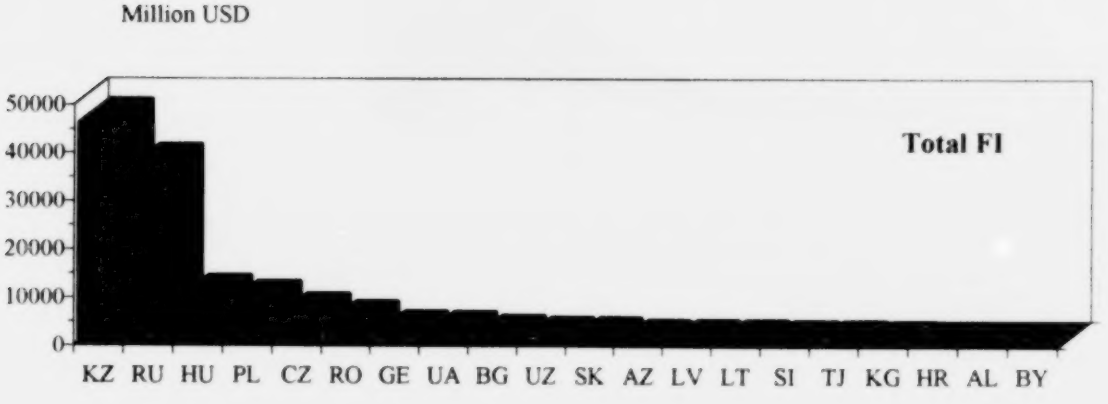
Note: Data represent cumulative foreign investment committed in projects with foreign capitalization equal to or exceeding 10 mn USD. Initial foreign investment is investment to be effected during the first 1-4 years of project life. Total foreign investment is investment to be effected during the whole project life.
Source: UN/ECE Secretariat.

CHART 2
European transition economies: foreign investment in large projects by host country, end 1994



Note : Data represent cumulative foreign investment committed in projects with foreign capitalization equal to or exceeding 10 mn USD. Initial foreign investment is investment to be effected during the first 1-4 years of project life.
Source : UN/ECE Secretariat.

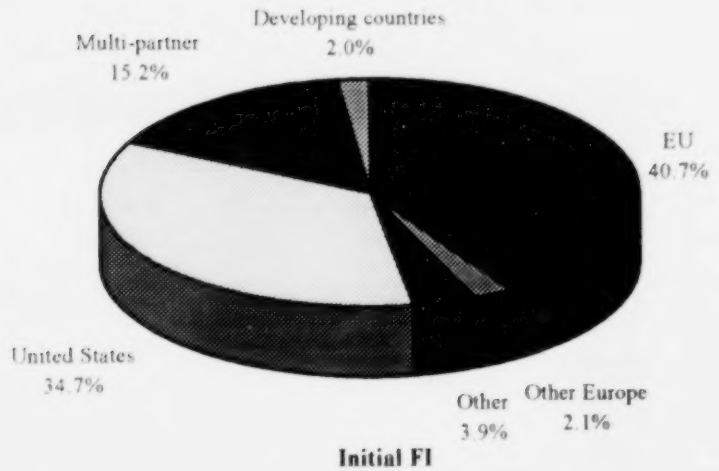
CHART 3
European transition economies: foreign investment in large projects by host country, end 1994



Note : Data represent cumulative foreign investment committed in projects with foreign capitalization equal to or exceeding 10 mn USD. Total foreign investment is investment to be effected during the whole project life.
Source : UN/ECE Secretariat.

CHART 4

European transition economies: foreign investment in large projects by origin of investor, end 1994

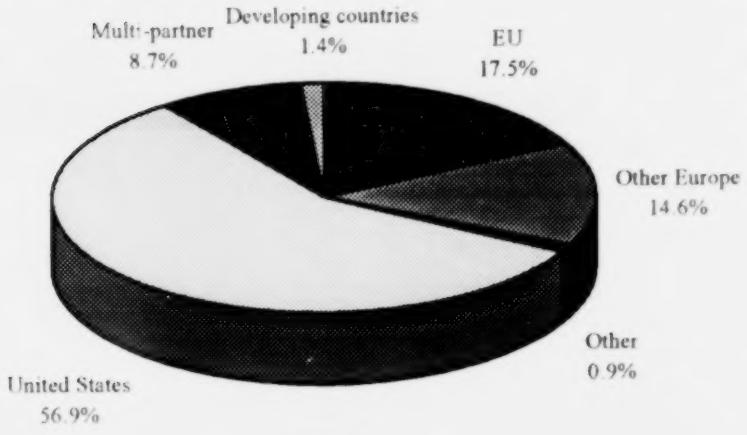


Initial FI

Note: Data represent cumulative foreign investment committed to projects with foreign capitalization equal to or exceeding 10 mn USD. Initial foreign investment is investment to be effected during the first 1-4 years of project life.
Source: UN/ECE Secretariat.

CHART 6

European transition economies: foreign investment in large projects by origin of investor, end 1994

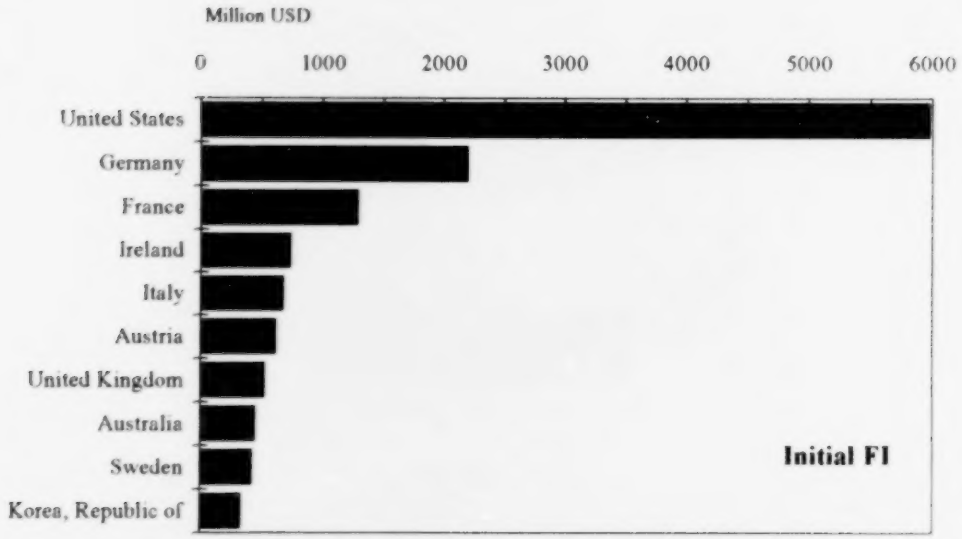


Total FI

Note: Data represent cumulative foreign investment committed to projects with foreign capitalization equal to or exceeding 10 mn USD. Total foreign invesment is investment to be effected during the whole project life.
Source: UN/ECE Secretariat.

CHART 5

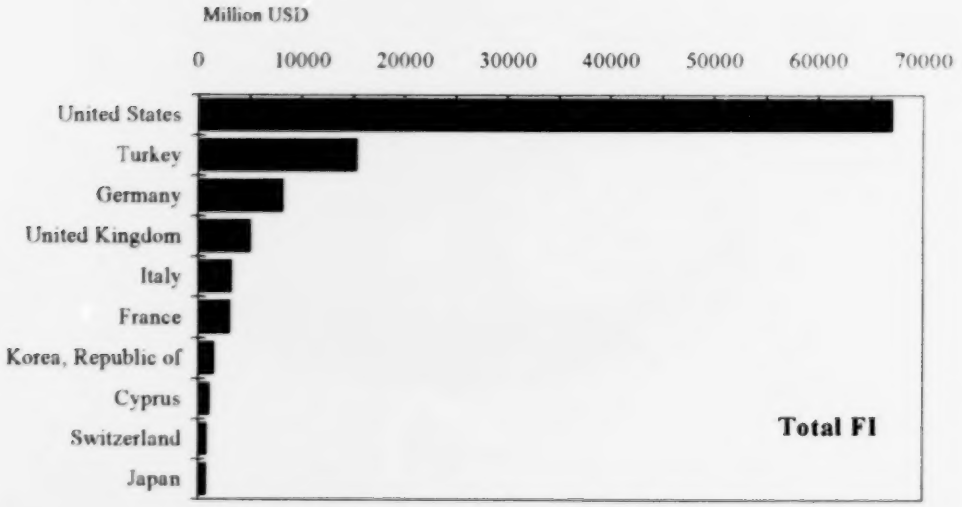
European transition economies: foreign investment in large projects by major investor country, end 1994



Note: Data represent cumulative foreign investment committed in projects with foreign capitalization equal to or exceeding 10 mn USD. Initial foreign investment is investment to be effected in large projects during the first 1-4 years of project life.
Source: UN/ECE Secretariat.

CHART 7

European transition economies: foreign investment in large projects by major investor country, end 1994



Note: Data represent cumulative foreign investment committed in projects with foreign capitalization equal to or exceeding 10 mn USD. Total foreign investment is investment to be effected during the whole project life.
Source: UN/ECE Secretariat.

TABLE 2

Large foreign investment projects in European transition economies by year

YEAR	INITIAL FI (1)		TOTAL FI (2)	
	VALUE (mn USD)	NUMBER OF PROJECTS	VALUE (mn USD)	NUMBER OF PROJECTS
1989 or earlier	821.719	9	1556.0	11
1990	801.6	7	705.5	5
1991	1960.5	22	7486.0	11
1992	2680.1	47	20675.3	35
1993	7080.0	79	69425.0	58
1994	3877.3	126	17931.2	95
TOTAL	17221.2	290	117779.0	215

(1) Foreign investment to be effected during the first 1-4 years of project life.
(2) Foreign investment to be effected during the whole project life.
Note: Data refer to projects which have initial or total foreign investment equal to or exceeding 10 mn USD. Figures may not add to totals due to rounding.
Source: UN/ECE Secretariat.

TABLE 3

Large foreign investment projects in European transition economies by host country, end 1994

HOST COUNTRY	INITIAL FI (1)		TOTAL FI (2)	
	VALUE (mn USD)	NUMBER OF PROJECTS	VALUE (mn USD)	NUMBER OF PROJECTS
Bulgaria	237.1	8	1186.9	9
Czech Republic	1387.5	25	5609.0	22
Estonia	132.0	2	-	-
Hungary	4651.7	57	9316.6	27
Latvia	197.3	3	327.0	1
Lithuania	26.0	2	321.7	3
Poland	4158.0	118	8125.3	87
Romania	251.9	4	4019.8	10
Slovakia	426.9	9	765.0	1
CIS	5423.3	54	87859.7	51
Azerbaijan	28.5	2	335.0	3
Belarus	-	-	13.0	1
Georgia	0.1	1	2000.0	1
Kazakhstan	2434.7	8	46077.7	7
Kyrgyzstan	15.7	2	95.0	1
Russian Federation	2654.0	33	36509.0	29
Tajikistan	-	-	200.0	1
Turkmenistan	50.0	2	-	-
Ukraine	80.4	4	1855.0	5
Uzbekistan	160.0	2	775.0	3
SUB-TOTAL	16891.6	282	117531.0	211
Albania	75.3	2	18.3	1
Croatia	53.9	2	23.7	1
Slovenia	122.5	3	206.0	2
Yugoslavia	78.0	1	-	-
TOTAL	17221.2	290	117779.0	215

(1) Foreign investment to be effected during the first 1-4 years of project life.
(2) Foreign investment to be effected during the whole project life.
Note: Data refer to projects which have initial or total foreign investment equal to or exceeding 10 mn USD. Figures may not add to totals due to rounding.
Source: UN/ECE Secretariat.

TABLE 4
Large foreign investment projects in European transition economies by origin of investor, end 1994

COUNTRY/REGION	INITIAL FI (1)		TOTAL FI (2)	
	VALUE (mn USD)	NUMBER OF PROJECTS	VALUE (mn USD)	NUMBER OF PROJECTS
Western Europe	7379.4	161	37710.9	108
EU	7011.2	145	20579.2	94
Austria	604.9	15	627.7	6
Belgium	202.7	5	123.7	2
Denmark	27.6	2	10.1	1
Finland	9.1	2	13.0	1
France	1281.0	14	2938.6	13
Germany	2190.5	52	8104.3	33
Greece	21.7	1	123.1	2
Ireland	727.0	2	34.5	1
Italy	666.5	9	3104.8	6
Luxembourg	33.3	1	110.0	1
Netherlands	225.1	7	188.0	4
Spain	88.0	1	-	-
Sweden	417.3	14	233.3	6
United Kingdom	516.6	20	4968.1	18
Other Europe	368.2	16	17131.8	14
Cyprus	-	-	1000.0	1
Norway	36.0	1	136.0	1
Switzerland	307.7	14	745.8	8
Turkey	24.5	1	15250.0	4
Canada	76.4	6	123.7	3
United States	5973.8	67	66984.6	66
Transition economies	124.0	3	87.0	1
Bulgaria	54.0	1	87.0	1
Russian Federation	70.0	2	-	-
Developing countries	338.4	6	1658.0	5
Bahamas	-	-	120.0	1
Korea, Republic of	325.4	5	1465.0	3
Singapore	13.0	1	73.0	1
Other	669.4	10	1030.8	9
Australia	442.8	5	265.8	3
Japan	176.6	4	675.0	5
South Africa	50.0	1	90.0	1
EBRD	34.1	2	-	-
Multi-partner projects	2610.8	34	10184.0	23
Unknown	15.0	1	-	-
TOTAL	17221.2	290	117779.0	215

(1) Foreign investment to be effected during the first 1-4 years of project life.
(2) Foreign investment to be effected during the whole project life.
***Note*: Data refer to projects which have initial or total foreign investment equal to or exceeding 10 mn USD. Figures may not add to totals due to rounding.**
***Source*: UN/ECE Secretariat.**

NEWS ROUND-UP

1. Recent and forthcoming meetings

• The ***Workshop of CIS Countries and Baltic States on Regional Trade, Payments and Economic Cooperation*** was held in Chisinau, Moldova, 9-12 January 1995. The meeting was organized by the UNDP in cooperation with UNCTAD, ECE and ITC.

Ministers and senior policy makers from the CIS and Baltic States, and representatives of international financial and CIS institutions, intergovernmental and international organizations, and the private sector met to discuss the problems impeding the development of trade and investment cooperation in the region.

The workshop covered the following topics:

- intra-CIS trade: current issues and policy options;
- strengthening regional and national facilities for external payments and trade financing;
- trade and industrial cooperation on country and enterprise levels;
- trade efficiency and facilitation;
- participation of the CIS and Baltic States in international trade;
- international support required to strengthen regional trade and enterprise cooperation.

A set of suggestions on measures to foster regional trade, payments and economic cooperation was adopted by participants. In particular, the necessity of rapid implementation of the CIS free trade agreement was emphasized, and measures were recommended to establish a multilateral clearing facility for regional payments, improve the environment and promote industrial and investment cooperation between countries and enterprises in the region.

A summary record of the Chisinau workshop may be obtained by contacting:

UNCTAD International Trade Division
CH-1211 Geneva 10
Switzerland
Tel.: (41 22) 907 5591
Fax: (41 22) 907 0044

• The ***International Conference on Transition to the Market Economy: Actual Problems in Financial and Banking Sectors*** was held in Geneva, Switzerland, 23-24 January 1995. The conference was devoted to the analysis of economic reforms in the countries of central and eastern Europe with a particular emphasis on the situation in the Russian Federation. Speakers included representatives of large western, east European and Russian banks, the UN secretariat and other organizations in Geneva, and consulting firms and other private companies.

Among the problems addressed during the conference were: legal regulations of reforms in the financial, banking and insurance sectors in the transition period, and the role of foreign and international financial institutions and organizations in assisting market transformation reforms.

Further information on the conference may be obtained from:

Finas S.A.
9, rue des Alpes
Case postale 1203
CH-1211 Geneva 1
Switzerland
Tel.: (41 22) 732 8803
Fax: (41 22) 731 9128

• The ***Consultative Meeting on the Priorities for the Improvement of Legal, Institutional, Financial and Fiscal Conditions for Foreign Investment in the NIS and in Central and Eastern Europe*** was held in Bonn, Germany, 2-3 February 1995. The event was organized by the International Committee for Economic Reform and Cooperation (ICERC), located in Bonn (ICERC was established in 1993 in Kiev, Ukraine, with the support of the CIS, countries of central and eastern Europe, international institutions and developed market economies.).

Participants included high-level officials from the countries of central and eastern Europe and the NIS, administrators from sub-regional groupings, representatives of multilateral agencies dealing with technical aid and assistance, experts from international organizations and investment institutions of certain donor countries, and executives from western companies and banks.

Among the subjects examined during the meeting were: recent developments in the FDI conditions and legal institutional frameworks of the countries in the region; issues and priorities for the development of a harmonized, WTO-compatible environment for foreign investment; promotion of investment and related activities; assessment of the international technical assistance programmes and efforts to promote FDI in the region.

Further information on the meeting and on ICERC's activities may be obtained from:

International Committee for Economic Reform and Cooperation
An der Elisabethkirche 25
D-53113 Bonn
Germany
Tel.: (49 228) 911 940
Fax: (49 228) 264 589

• The ***Conference on New Tendencies in the Organization of Banking in Western Europe*** will be held in Geneva, Switzerland, 1-5 May 1995. The conference is organized by three Geneva-based organizations: the Association for University Business Relations, l'Institut supérieur des affaires et du management, and the Russian-Swiss Business Club of Geneva.

Some of the purposes of the meeting are: to examine the situation of the world market of banking services; to look into state regulations on banking; to provide information on ways and means of evaluating the activities of banks and relevant criteria; and to investigate the decision-making processes used in credit operations.

Speakers will include representatives of leading Swiss and international banks, the Swiss Federal Banking Commission and auditing companies.

Details may be obtained from the conference organization committee:

24, chemin de Mont-Rose
CH-1294 Genthod-1, Geneva 1
Switzerland
Tel.: (41 22) 774 3611
Fax: (41 22) 774 3169

• The ***Second International Conference on Real Estate and Business Appraisal in Transition Economies*** will be held at the Academy of National Economy in Moscow, Russian Federation, 13-18 June 1995. The conference will bring together professional appraisers, surveyors, assessors, and representatives of professional organizations from different countries to discuss and develop solutions to the problems of real estate and business appraisal associated with the privatization process and the transitional environment. The conference is organized by the Russian Society of Appraisers and the State Institute on the Problems of Privatization, and is sponsored by the East European Real Property Foundation. The European Group of Valuers of Fixed Assets is also supporting the conference. Simultaneous Russian-English translation will be provided, and more than four hundred people are expected to attend, with many coming from the United States and western and eastern Europe.

The conference will be divided into three main sections, appraisal for banks, appraisal for insurance, and mass appraisal techniques, during which the following issues will be addressed:

• the development of the appraisal profession in Russia and east European countries;
• the role played by professional appraisal societies;
• how western appraisal techniques work in transitional economies;
• real estate and business appraisal in privatization;
• valuation consultants attracting foreign capital in Russia; and
• state regulation of the appraisal profession in Russia and eastern Europe.

Registration fees are US$ 800 per participant and US$ 600 per accompanying person. These fees include all opening and closing ceremonies, tours, receptions, banquets, entertainment programs, and meals and accommodations in the Hotel Yugo-Zapad (***)

For more information, contact:

The Russian Society of Appraisers
Novaya Basmannaya, 21-1
107078 Moscow
Russian Federation
Tel: (7095) 261-5653 *or* 263-0100
Fax: (7095) 261-5653

or

The Russian Society of Appraisers
Amapolo Avenue, Suite 200
Torrance, California 90501
United States of America
Tel: 1 (310) 328-3583 *or* 1 (800) 932-6758
Fax: 1 (310) 328-9057

2. Recent publications

• *Latvian Business Guide 1994*, Riga: Latvian Development Agency, 1994.

This publication contains an overview of the geographical, administrative, economic and political situations in the country, describes the financial and taxation systems, regulation on foreign trade activities, operations with foreign exchange, and summarizes the laws and rules governing foreign investments, employment and other procedures.

The guide also provides details on activities and services rendered by the Latvian Development Agency, addresses and telephone numbers of the Government ministries and bodies, as well as those of major banks and other business organizations.

• *Latvian Export Directory 1994*, Riga: Latvian Development Agency, 1994.

This directory includes information about Latvian exporters, export goods, and services associated with exports. The publication contains a list of enterprises classified in accordance with their goods and services and also an alphabetical list of export companies and enterprises containing each company's address, production profile, number of employees, and the name of the managing director. The directory contains information on 546 enterprises.

• *Business with Latvia*, Riga: Latvian Development Agency.

Each issue of this monthly publication contains information on a particular subject or a sector of the national economy (its current situation, perspectives and trends), general economic data on the economy in general, and profiles of successful export companies. Special sections of the monthly are devoted to business and privatization opportunities. They provide information on companies looking for trade contacts with western companies, and on enterprises to be privatized. The following information is offered for perspective investors: company addresses; main activities; the name of the contact person in the privatization agency; figures on output; structural units of the company; authorized capital; fixed assets; debtors and creditors; territory occupied by the enterprise; and number of employees.

All three publications are available in English. Inquiries should be addressed to:

Latvian Development Agency
36, Brivibas Blvd.
LV-1519 Riga
Latvia.

• *The Expert Institute of the Russian Union of Industrialists and Entrepreneurs (Moscow, Russian Federation)* was established in autumn 1991 as an independent research body aiming to promote business in Russia, analyze the current socio-economic and political situation and disseminate economic data. The Institute is funded by contributions from sponsors (large industrial enterprises, commercial banks, and trading and other companies) and through fees for commissioned studies.

The Expert Institute has a small permanent staff of experts and also employs consultants with a special knowledge in required areas for each particular project. As a result, studies produced by the Institute contain very interesting information for those studying the Russian economy or its certain segments and problems.

It is noteworthy that the Russian Economics Minister, Mr. Y. Yasin, was a former director of the Expert Institute.

The Institute is conducting research under three major project areas. Publication titles are shown in parenthesis.

- Russian Reform (Russian reforms: the beginning of a new stage; Dynamics of industrial production in Russia: 1990-1993; Russia's region in transition; The exchange rate of rouble; etc.);

- Enterprises in a Market Economy (The Russian textile industry: is there any chance of surviving?; Russian enterprises: the adaptation process; Enterprises in transition: new types of behaviour; etc.);

- Russian Society: Yesterday, Today, Tomorrow (Russia and social partnership; The sinusoid of public opinion; etc.).

Since 1992, the Institute has published more than two dozen studies in both Russian and English.

Further details may be obtained from:

The Expert Institute
Staraya Ploshad 10/4
103070 Moscow
Russian Federation
Tel.: (095) 206 0129; 206 7045
Fax: (095) 206 0504

ENDNOTES

[1] This present paper was presented by Dr. Klaus Brendow, Director, Central/East European Programme, World Energy Council (WEC) at the Croatian National Energy Day on 16 December 1994 in Zagreb. The text is reproduced here in an abridged form. Author's address: Dr. Klaus Brendow, Chemin de la Nonnette 21, CH-1292 Chambésy/Genève, Switzerland; Tel.: (+41 22) 758 1676; Fax.: (+41 22) 758 3076.

[2] "Energy FDI" refers to investment in, and control over, activities in the exploration, extraction, conversion, upgrading, transmission, trade and distribution of primary, secondary and derived sources of energy. Contrary to statistical practice, the present paper also includes under this heading energy engineering and consulting, as many international investors are also active in these fields.

[3] UN, *World Investment Report 1994*, New York, 1994, p. 12.

[4] Ibid., p. 19, 99.

[5] UN, World Investment Report 1994, op. cit., p. 100; UN/ECE, Economic Survey of Europe, New York, 1994, p. 136.

[6] UN/ECE, *East-West Investment News*, No. 1, Spring 1993; elaborated further by the author in "Energy reforms and foreign direct investments in the CIS", *International Journal of Global Energy Issues*, Summer 1994.

[7] UN/ECE, *Energy reforms in central and eastern Europe - the first year*; New York, 1991, p.31; further elaborated by the author in "Energy reforms and foreign direct investments in CIS energy projects", *International Journal of Global Energy Issues*, Summer 1994.

[8] UN/ECE, *East-West Investment News*, No. 1, Spring 1993.

[9] *Eastern Europe*, 4.4.1994.

[10] Federal Programme on Privatization of State and Municipal Enterprises, reproduced in UN/ECE, *East-West Investment News*, No. 2, Summer 1994.

[11] *East-West*, 17.10.1994, p. 15.

[12] *Europe Energy*, No. 418, III.

[13] *Eastern Europe*, 4.4.1994; *Europe Energy*, No. 426, III.

[14] *Europe Energy*, No. 430, III.

[15] *East-West*, 17.6.1994, p. 13; *Central European*, February 1994.

[16] *Europe Energy*, No. 432, III.

[17] *Europe Energy*, No. 419, III.

[18] *East-West*, 15.4.1994, p. 16.

[19] *East-West*, 15.4.1994, p. 10.

[20] Frankfurter Allgemeine Zeitung, 25.10.1994; Europe Energy, No. 417, III.

[21] *Europe Energy*, No. 422, III.

[22] *Europe Energy*, No. 432, III.

[23] *Europe Energy*, No. 416, III.

[24] *East-West*, 17.10.1994.

[25] For a comparative table of legislation and for an appraisal, see UN/ECE, *East-West Investment News*, No. 2, Summer 1994.

[26] *Eastern Europe*, 4.4.1994; *Europe Energy*, No. 426, III.

[27] UN, *World Investment Report 1994*, op. cit., table I.2.

[28] With respect to foreign direct investment in TEs, the secretariat generally uses the terms foreign investment (FI) and foreign investment enterprises (FIEs), rather than the internationally-agreed notions of foreign direct investment (FDI) and foreign direct investment enterprise (FDIE). Just as FDIEs do, FIEs refer to enterprises with important foreign capital participation, including both newly established joint ventures and wholly foreign-owned subsidiaries, as well as those already existing national enterprises which have been taken over by foreign investors, or in which the latter have purchased equity stakes.

At the same time, the concept of foreign investment enterprise differs from that of FDIE. While the latter is strictly defined by international organizations as having at least a ten per cent foreign share in its capital (although national practices vary), the definition of the former does not involve a similar percentage criterion, being of purely qualitative nature. The eventual coverage differences, however, are insignificant. In *East-West Investment News*, the terms of FDI and FDIE are employed only in cases when they are known to be used correctly, while in all other cases less precise terms of FI and FIEs are utilized.

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